

December 3, 1999

Honorable Dick Armey  
House Majority Leader  
U. S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Armey:

In response to your September 22, 1999 request, we have updated our December 7, 1998 list of what we consider the key management challenges confronting the U.S. Environmental Protection Agency (EPA). We believe these areas need to be addressed in a timely manner so the Agency can continue to accomplish its environmental mission and achieve effective management. Enclosure 1 is our updated list of key management challenges needing high-level Agency attention. This list includes:

1. Accountability (*updated*)
2. Environmental Data Information Systems (*updated*)
3. Backlog of National Pollutant Discharge Elimination System Permits (*updated*)
4. Oversight of Assistance Agreements (*updated*)
5. Employee Competencies (*updated*)
6. EPA's Automated Information Systems Security (*updated*)
7. Quality of Laboratory Data (*new*)
8. Agency Process for Preparing Financial Statements (*new*)
9. Superfund Five-Year Reviews (*new*)
10. The Great Lakes Program (*new*)

The Office of Inspector General is committed to working collaboratively with EPA and our external stakeholders to view environmental and management challenges as opportunities for win-win solutions. To that end, we believe the Agency has made significant progress towards resolving three previously reported key management challenges. As detailed in enclosure 2, these are: (1) Agency's Relationship With Contractors; (2) Use of Inefficient Contract Types; and (3) Quality Assurance Plans. While the Agency is responsible for ensuring that its continuing actions correct the problems in those areas, we plan to closely monitor the Agency's progress in implementing the plans for each area.

We look forward to discussing these issues with your staff. Should your staff require any additional information or have any questions, please have them contact James O. Rauch, Assistant Inspector General for Audit, on (202) 260-1106.

Sincerely,

*/s/ Nikki L. Tinsley*

Nikki L. Tinsley

Enclosures

**THE OFFICE OF INSPECTOR GENERAL'S  
LIST OF KEY MANAGEMENT CHALLENGES  
NEEDING HIGH-LEVEL AGENCY ATTENTION**

**1. Accountability**

EPA's stated mission is to protect human health and safeguard the environment. We have recommended improvements in a number of areas that will help EPA achieve accountability in carrying out its mission.

EPA was consciously organized with ten largely autonomous regional offices so that the Agency could be more sensitive to local environmental concerns. With this organizational structure, it is very important that regional offices be held accountable for implementing national environmental policies. Resources budgeted for environmental programs by EPA Headquarters should be controlled and accounted for to ensure that they are indeed used for the designated purposes. We have been a proponent of greater accountability in this area. This can be achieved through clearly defined goals, performance measures and areas of responsibility, better tracking of how employees spend their time, and greater regional commitment to achieving national goals.

Performance partnership grants (PPG) give states increased flexibility in how they use resources. However, PPGs also raise new questions regarding the extent EPA can be held accountable for work performed by the states and their agents. EPA officials have had difficulty determining how to provide flexibility while at the same time ensuring accountability for performance and environmental results. Performance partnership agreements should clearly delineate measures of performance to achieve accountability. However, we found that some of these agreements did not provide adequate measures of performance to achieve accountability. Many performance measures were not quantifiable, verifiable, measurable, and time-specific. We also found that regional officials were still predominantly using activity-based measures to hold states accountable instead of outcome-based measures. We are concerned that the EPA and state effort required to track and report on such a large number of primarily activity-based measures is detracting from real environmental improvements.

In work on the Great Lakes Program, we found that plans established as systematic and comprehensive ecosystem approaches to address the Great Lakes would benefit from clarifying the organizational roles and responsibilities for the offices, divisions and teams involved. Also, agreements should be entered into with all involved entities to identify the roles and responsibilities of each. In developing the next Great Lakes five-year strategy, EPA needs to strive to obtain buy-in and commitment from all parties, focus on goals, include performance measures, and provide accountability for implementation.

In recent years EPA has been focusing more on developing partnerships with the regions and states. However, this new focus should not undermine EPA's collateral oversight role. The

1998/1999 RCRA Implementation Plan did not communicate specific expectations regarding basic permitting program maintenance. Clarification of roles and responsibilities would establish accountability and help the program achieve success. The Agency has not collected basic data, nor established any standards/guidelines for how long a permit should take to issue. Without this type of data EPA cannot identify states with permitting problems, or be in a position to monitor performance and hold states accountable.

Management information systems (discussed later) impact accountability. People are accountable for achieving specific goals and objectives. Evaluating success in reaching these goals requires that progress be measurable and measured. Without reliable management information systems to measure this progress, personal accountability is difficult to assess.

In response to last year's accountability concern, EPA stated that Agency activities to improve overall accountability are inherent in corrective actions related to the major management issues. Many of the corrective actions address the specific issues that were referenced in our audits. Accountability is a crucial piece of the Agency's overall planning and budgeting framework. EPA uses tools available under GPRA and other management statutes to resolve management problems.

We agree that taking corrective actions in response to our work is a start to improving accountability in EPA. However, as this year's new examples of areas needing improvement in accountability demonstrate, EPA must develop accountability systems that tie employee and grantee actions to EPA's organizational goals.

### **Audit Reports**

- 1999-000209 Region 8 Needs to Improve Its Performance Partnership Grant Program to Ensure Accountability and Improved Environmental Results, September 29, 1999
- 1999-000208 Region 6 Oversight of Performance Partnership Grants, September 21, 1999
- 1999-P-00216 Region 4's Implementation and Oversight of Performance Partnership Grants, September 27, 1999
- 1999-P-00212 EPA's Great Lakes Program, September 1, 1999
- 9100115 EPA Controls Over RCRA Permit Renewals, March 30, 1999

## **2. Environmental Data Information Systems**

Audits of EPA programmatic areas often have a component relating to environmental data information systems, and we frequently find deficiencies within these systems. Today, most states have developed environmental programs with their own supporting information systems, based upon their own needs. Moreover, EPA and the states often apply different data definitions within

these information systems, and sometimes collect and input different data. The result has been that states and EPA report inconsistent data and often have difficulty sharing comparable information. Sometimes the states are not timely in reporting or do not report required data at all. As a result, EPA may not have the environmental data it needs to monitor environmental activities or compare progress across the nation.

EPA recently formed the new Office of Environmental Information (OEI). OEI is committed to enhancing information quality and usability. OEI seeks to increase the value of environmental information for all stakeholders by systematically improving the accuracy, reliability and scientific defensibility of environmental information. To that end, OEI's Information Collection Office will implement an error correction process to improve the accuracy of collected data. In addition, the Administrator recently announced an Information Integration Initiative (I-3) focused on establishing a single integrated multi-media core of environmental data and tools. The I-3 project intends to use the building blocks of data standards, electronic reporting and central receiving to form an integrated information system. Although these steps move the Agency in the right direction, EPA has not developed an overall strategy to address the completeness of its environmental data. As a result, EPA's ability to evaluate the outcomes of its programs in terms of environmental changes will continue to be limited by gaps and inconsistencies in the quality of its data.

We recommended that EPA identify this area as a fiscal 1999 management control weakness.

### **Audit Reports**

1999-P-00215	Identification and Enforcement of RCRA Significant Non-Compliers by Region III and the Virginia Department of Environmental Quality, September 20, 1999
1999-1-00224	Region 2's Enforcement of the Resource Conservation and Recovery Act (RCRA), July 21, 1999
99-183-P00211	Region 7 and Nebraska Resource Conservation and Recovery Act Enforcement, July 8, 1999
9100110	Resource Conservation, and Recovery Act Programs Significant Non-Complier Enforcement, March 23, 1999
9100078	RCRA Significant Non-Complier Identification and Enforcement by RIDEM, January 21, 1999

### **3. Backlog of National Pollutant Discharge Elimination System Permits**

EPA has recognized that the backlog in issuing National Pollutant Discharge Elimination System (NPDES) permits is a nationwide problem. In 1998, we conducted audits in three states to assess the extent of permit backlog. EPA had not issued or renewed most of the required

permits for municipal and industrial dischargers in Alaska and Idaho. Although Region 10 issued 33 permits in 2 ½ years, there were 1,000 applications waiting to be processed; of which 70 percent were over 4 years old at the time. As a result, large numbers of dischargers were operating in violation of the law or had their permits administratively extended without being subject to more current and stringent discharge requirements. Also, we found that Kansas did not reissue expired wastewater facility permits in a timely manner, and did not submit expired permits to Region 7 for review. As a result, the permittees were allowed to discharge pollutants at levels that could adversely affect human health and aquatic life.

EPA's Office of Water declared the "*Backlog in the NPDES Permits*" a material weakness for fiscal 1998, and developed a corrective action plan for completion in fiscal 2004. In addition, the "Clean and Safe Water" strategic goal for fiscal 2001 will address the NPDES permit backlog. We will continue to monitor the progress EPA makes in addressing this important issue.

#### **Audit Reports**

8100076	Region 10's National Pollutant Discharge Elimination System Permit Program, March 13, 1998
8100089	Kansas National Pollutant Discharge Elimination System Program March 31, 1998

#### **4. Oversight of Assistance Agreements**

EPA accomplishes its mission in large part through assistance agreements awarded in the form of grants and cooperative agreements to states, local and tribal governments, universities and non-profit recipients. Assistance agreements are the primary vehicle through which EPA delivers environmental and human health protection to the public. During fiscal 1998, EPA awarded more than \$4 billion in assistance agreements, which was more than 50 percent of EPA's budget. In fact, funding for assistance agreements has constituted approximately one-half of the Agency's budget for many years. It is important that the Agency and the public receive what it paid for.

EPA annually awards approximately \$160 million in grants to states to prevent and control air pollution. States use these funds for activities such as: inspecting, monitoring, and permitting facilities; identifying and reporting those facilities not in compliance with the law; and, taking appropriate enforcement actions. We found significant aspects of state work to be substandard, including state inspections, reporting, and enforcement programs. EPA regions did not clearly communicate expectations or monitor state performance. As a result, EPA regions and headquarters did not know the extent of air pollution problems and could not take appropriate actions to address those problems.

EPA awards annual grants to states for the development and implementation of Resource Conservation and Recovery Act (RCRA) hazardous waste programs, including enforcement. States and EPA regions negotiate the specific work that must be accomplished with the grant funds. Our 1999 RCRA enforcement work continued to show that delegated states have not consistently ensured that non-compliers receive timely formal and informal enforcement actions, and return to compliance. Some EPA regions still need to increase oversight of RCRA delegated states. Data input requirements for information on hazardous waste violators have been inconsistent. Some delegated states are not aggressively pursuing formal enforcement actions against significant non-compliers, leaving hazardous waste in place at dangerous levels for many years.

On another front, we have performed a series of audits aimed at smaller grantees to see how successful they were in delivering the benefits described in their grant proposals. In an audit of environmental justice grants, we found that an EPA headquarters office and an EPA regional office awarded grants with identical work plans to the same recipient, within five months of each other. However, the offices expected different work products. The grantee, believing one grant was to supplement the other, wrote to EPA officials about the duplicate work plans. Neither office responded, and neither monitored grantee performance. As a result, neither office received the product it expected.

Another problem is EPA's longstanding practice of awarding grants when it should have contracted for work. The Federal Grant and Cooperative Agreements Act of 1977 requires that agencies contract to obtain goods and services which directly benefit their agency. Agencies can receive only incidental benefit from grantee efforts. Under one grant, EPA directed the recipient to hire a specific individual to perform inspections that were the Agency's responsibility. Moreover, the grant recipient's executive director did not consider this inspection work to be consistent with his organization's goals and advised EPA that his organization would not be responsible for the inspection results. In another example, EPA authorized a grantee to perform needs assessments - in some cases, of regional office needs. Again, the grantee did work that was the Agency's responsibility. Agency managers said they did not even consider whether the work should have been funded as a contract.

EPA has outlined a number of actions to prevent future occurrences of the situations described in our audits. Some actions are complete while others are ongoing. In future audit work we will evaluate the effectiveness of some of these corrective actions. It is important that EPA evaluate its efforts as well, as they have planned to do during fiscal 2000.

EPA's Office of Administration and Resources Management recommended that this area be redesignated from a material weakness to an Agency-level weakness in its fiscal 1999 Integrity Act Report. We agree that EPA has addressed certain aspects of this problem. However, we continue to report this area as a key management challenge because it represents a significant portion of EPA's resources and is key in delivering environmental results.

**Audit Reports**

1999-1-00310 Costs Claimed by Western States Air Resources Council, September 30, 1999

1999-S-00189 Region 10's Award and Administration of Grants to the Western States Air Resources Council, September 30, 1999

1999-P-00215 Identification and Enforcement of RCRA Significant Non-Compliers by EPA Region III and the Virginia Department of Environmental Quality, September 20, 1999

1999-00213 National Association of Minority Contractors (NAMC), August 23, 1999

1999-1-00224 Region 2's Enforcement of the Resource Conservation and Recovery Act (RCRA), July 21, 1999

9100115 EPA Controls Over RCRA Permit Renewals, March 30, 1999

9100117 Center for Chesapeake Communities, March 31, 1999

9300006 Center for Environment, Commerce and Energy, February 17, 1999

9100078 RCRA Significant Non-Complier Identification and Enforcement By the Rhode Island Department of Environmental Management, January 21, 1999

**5. Employee Competencies**

The Agency has recognized that one of its biggest challenges over the next several years is the development and implementation of a strategy that focuses the Agency's attention and resources on employee development. To effectively manage EPA's programs and resources, each employee must acquire and maintain the requisite competencies, including a thorough understanding of the responsibilities of his or her position and the statutory and regulatory authorities for carrying out those responsibilities. Appropriate training for staff, including supervisors and managers, is critical to EPA accomplishing its environmental mission.

The need for training has been highlighted in a number of our audit reports. In our audit of the Superfund quality assurance program, we found that Headquarters Superfund program and several EPA regions had not clearly identified the quality assurance training needs of Superfund program staff. Even in regions where the needs were identified, in some cases the needed training was not actually provided to staff. As a result, the staff responsible for quality assurance often did not have the knowledge and skills to adequately perform this critical responsibility. Our audits of EPA's administration and oversight of assistance agreements highlighted the need for Agency managers and supervisors to be trained in this area. EPA employees in the hazardous waste program needed more rigorous training to calculate proposed penalties against violating facilities. Once employees are trained, they should be held accountable for performing consistent with the approaches they learned in training.



In addition to the need to develop technical competencies in the workforce, EPA has recognized the need for broader management and leadership skills as well. This need was clearly expressed in the “*Workforce Assessment Project*” whose objective was to assess and act on the implications of changes in EPA’s mission and role in environmental protection. This study identified competency gaps that EPA must close to ensure that its workforce can meet the new challenges of the future. These competencies include: customer orientation; collaboration and team orientation; innovative thinking; and most importantly, better communication and team skills for use both within and outside EPA.

### **Audit Reports**

- 1999-000209 Region 8 Needs to Improve Its Performance Partnership Grant Program to Ensure Accountability and Improved Environmental Results, September 29, 1999
- 8100240 EPA Had Not Effectively Implemented Its Superfund Quality Assurance Program, September 30, 1998
- 8100256 Pre-award Management of EPA Assistance Agreements, September 30, 1998
- 7100146 Administration of RCRA Civil Penalties, March 31, 1997

## **6. EPA’s Automated Information Systems Security**

EPA relies on its information systems to collect, process, store, and disseminate vast amounts of information which is used to assist in making sound regulatory and program decisions. The Agency attempts to identify risk for its information systems and minimize potential vulnerabilities through a series of individual security plans.

Recently, EPA initiated a centralized validation process for these security plans. However, the Agency has not decided how many or which mission-critical system plans it will review as part of the validation process, or the extent it will review each plan and security program.

We believe that EPA needs to aggressively pursue a quality assurance process to evaluate the adequacy of implemented security plans and the security programs which support them. With a decentralized Wide Area Network which links all of EPA’s computer systems, even one regional location with an inadequate security program can make the entire Agency vulnerable. Similarly, weaknesses surrounding EPA’s key environmental and financial systems could jeopardize the integrity of vital data for decision-making and public use.

A number of OIG audits found significant and pervasive problems regarding the adequacy of security plans for EPA’s core financial systems and various regional systems. Although Assistant and Regional Administrators have certified that security plans are in place, they make no

claim as to the quality of the plans. EPA's centralized quality assurance program should provide aggressive oversight in order to ensure that EPA's valuable Information Technology resources and environmental data are secure, and that existing risk and vulnerabilities are sufficiently acknowledged and addressed.

EPA declared Information Systems Security Planning as a material weakness in its fiscal 1997 Integrity Act Report and completed a number of important corrective actions during fiscal 1998. Despite its notable actions, EPA's new Office for Environmental Information (OEI) has just begun to address its oversight role in assuring quality for EPA's vast information system network. The scope of OEI's centralized quality assurance program will determine the extent of progress ultimately made.

### **Audit Reports**

99B0003	Audit of EPA's Fiscal 1998 Financial Statements, September 28, 1999
8100252	Security of Region X Local Area Networks, September 29, 1998

## **7. Quality of Laboratory Data**

Some scientific analyses generated by EPA and contract laboratories is of questionable quality and should not be used to support environmental decisions. For example, after a contract laboratory voluntarily disclosed data integrity problems at one of its laboratories, a former Deputy Administrator asked for our advice on how such fraudulent activity can be detected and prevented. In this case, potential data fraud involved sample analyses for several areas including: Superfund; Resource Conservation and Recovery Act; National Pollutant Discharge Elimination System; air toxics; and pesticide programs. While we recognize that there are no guarantees for preventing fraud, in June 1999, we suggested various actions that would enhance the Agency's ability to deter and detect fraudulent activities. In a November 1, 1999, letter, the American Council of Independent Laboratories, a national trade association representing over 300 commercial laboratories, expressed general agreement with our report and invited EPA to work with them to develop programs to minimize the occurrence of data manipulation.

After completing the contract laboratory work, we reviewed, at a Regional Administrator's request, concerns with the quality of analytical results produced by an EPA laboratory. In November 1999, we reported that data quality and chain of custody were compromised when laboratory chemists circumvented the lab's standard operating procedures. As a result, data were provided to the regional program offices for decision making and enforcement actions that were of unknown quality and indefensible. During 1998, an internal EPA review identified numerous weaknesses in laboratory management practices and a corrective action plan was developed. Our review of these corrective actions found that the laboratory had done little to address these weaknesses and the problems at the laboratory continued to exist. We recommended various actions for improving the management, accountability, and oversight of the

laboratory, including instituting a process for providing independent technical reviews of the laboratory. The Region agreed with the recommendations and provided a written plan outlining ongoing and planned actions to address the recommendations.

As a result of data quality problems in both a contract laboratory and an EPA laboratory, EPA is spending significant resources to determine the impact fraudulent analyses have had on environmental and enforcement decisions. EPA must devote additional efforts to ensuring the integrity of scientific analyses. We will continue to assist EPA's efforts to identify and prevent fraud at contract laboratories.

### **Audit Reports**

2000-P-3                      Review of Region 5 Laboratory Operations, November 22, 1999

Memo to the  
Acting Deputy  
Administrator:              Laboratory Fraud: Deterrence and Detection, June 25, 1999

## **8. Agency Process for Preparing Financial Statements**

Although we issued an unqualified opinion on EPA's fiscal 1998 Financial Statements, EPA's current process for preparing financial statements needs to be improved. Audited financial statements are due to OMB by March 1 of each year. Treasury must submit the Government-wide statements to the President and the Congress by March 31. Because of Agency process problems, EPA's financial statements were finally submitted to OMB on September 30, 1999.

The Office of Chief Financial Officer (OCFO) staff encountered difficulties in preparing Statements of Budgetary Resources and Financing, which were required for the first time in fiscal 1998, resulting in the most significant delays in preparing the financial statements. Since EPA was not timely identifying and deobligating funds for some inactive grants, contracts and interagency agreements, an additional review of its open obligations had to be performed after the close of the fiscal year. This review identified \$99.5 million of open obligations that needed to be deobligated. Improvements in the Agency's deobligation process could result in additional funds being available to support its environmental goals. Also, this review identified a problem with incorrect conversion during 1989 of accounting transactions from the predecessor accounting system. Consequently, the unliquidated obligation balance of \$12.8 million and the authority balance of \$43.5 million from 1989 and earlier may be misstated. In addition, significant differences existed between the Agency's general ledger, the numerous drafts of its Statement of Budgetary Resources and the budgetary reports submitted to OMB resulting in further delays in preparing timely and accurate Statements of Budgetary Resources and Financing.

The above issues highlight the need for EPA to strengthen its coordination and quality control processes to ensure accurate data is available on a timely basis to prepare the financial statements and to manage the Agency's environmental programs. We previously highlighted the need for improvement in this process in the management letter we issued at the conclusion of our audit of the Agency's fiscal 1997 financial statements.

Since these issues affected the sound management of the Agency's resources and resulted in a noncompliance with Government Management Reform Act (GMRA), we recommended that EPA identify this as a fiscal 1999 management control weakness.

### **Audit Report**

99B0003      Audit of EPA's Fiscal 1998 Financial Statements, September 28, 1999

## **9. Superfund Five-Year Reviews**

The Superfund statute requires that remedial actions, where hazardous substances, pollutants, or contaminants remain on-site, be reviewed every five years to assure that human health and the environment continue to be protected. Some five-year reviews have found that additional corrective actions were needed. This issue is of growing importance because containment remedies have been used more frequently since 1992.

In March 1995, we reported that a substantial number of five-year reviews had not been performed, due largely to the low priority given them by Agency management. We recommended several options for improving the program and reducing the backlog. At that time, Agency management agreed to implement the recommendations or take other actions to address the issues. However, during our 1999 follow-up audit, we found that (1) the backlog of five-year reviews was nearly three times larger than at the time of our previous audit, (2) approximately 30 percent of the reports did not contain a definitive statement on protectiveness or information in the report seemed to conflict with the statement made, and (3) results of the reviews were not being reported to the Congress or the public.

We currently estimate that EPA may need to devote approximately \$1million above the expected spending level each year for the next 3 years to eliminate the backlog. At the conclusion of our follow-up audit, however, the Agency had not yet committed the funds necessary for accomplishing this work. The increasing use of containment remedies, a growing backlog of five-year reviews, the repeat nature of many of our findings, and a need to devote additional resources warrants EPA's formal recognition of the importance of the five-year program and the establishment of necessary corrective actions as priority action items.

We recommended that EPA identify this as a fiscal 1999 management control weakness.

**Audit Reports**

1999-P-218 Backlog of Five Year Review Reports Increased Nearly Threefold,  
September 30, 1999

5100229 Backlog Warrants Higher Priority for Five-Year Reviews, March 24, 1995

**10. The Great Lakes Program**

It has been over 25 years since the Great Lakes Water Quality Agreement was signed. The purpose of the Agreement between the U.S. and Canada is to restore and maintain the chemical, physical, and biological integrity of the Great Lakes basin ecosystem. The basin is home to more than one-tenth of the U.S. population, and has some of the world's largest concentrations of industrial capacity. Environmental challenges include contaminated sediments, the effects of exotic species, and loss of habitat.

EPA needs to improve and complete its Lakewide Management Plans (LaMPs) and Remedial Action Plans (RAPs) which were established as systematic and comprehensive ecosystem approaches to address the Great Lakes. These plans are taking considerably longer than expected to complete. For example, while a draft LaMP for Lake Michigan was first published in 1992, it was never finalized. Officials currently intend to issue this LaMP by April 2000. The statutory deadline for incorporating RAPs into state water quality plans was January 1, 1993. To date no U.S. RAPs have been fully implemented. Without these plans, there is no assurance that EPA was doing the right, most cost effective, and highest priority activities needed to protect the Great Lakes. EPA and its partners have been slow in restoring and maintaining the integrity of the Great Lakes basin. The states' frustration over the slow progress made has been obvious for some time. If significant progress is not made in the near future, states may withdraw their support which would affect EPA's ability to accomplish its mission.

In response to our audit work, EPA stated that by April 2000, plans will be completed for Lakes Michigan, Erie, and Superior; a report describing the environmental problems in Lake Huron will be issued; and a new Great Lakes Strategy will be completed. These are certainly steps in the right direction. When these actions have been completed and implementation begun, we can expect to finally see some progress made. Until then, we believe that attention and emphasis must be maintained to ensure that progress continues so that EPA will not lose the states' support. This support is needed so EPA can accomplish its Great Lakes mission.

**Audit Report**

99P00212 EPA's Great Lakes Program, September 1, 1999

**THE OFFICE OF INSPECTOR GENERAL'S  
LIST OF KEY MANAGEMENT CHALLENGES  
WITH SIGNIFICANT AGENCY PROGRESS TOWARDS RESOLVING**

**1. Agency's Relationship With Contractors**

Our audit work has shown that instances or appearances of personal services contracts were a vulnerability that EPA needed to address. A personal services contract, by its written terms or as administered, makes the contractor staff appear to be Government employees. Personal services are prohibited unless specifically authorized by law. Personal service problems, or the appearance of such, existed in 57 percent of the contracts and among nearly all the major program offices we reviewed in fiscal 1998. Personal services relationships primarily occurred because: (1) EPA program office employees exercised excessive supervision over contractor and subcontractor staff; (2) EPA and contract employees were often located in the same or nearby office space; or (3) contract language and oversight needed improvement. As a result of these findings, EPA made this an Agency-level weakness for fiscal 1998.

In November 1998, the Office of Administration and Resources Management issued an Agency guidance memorandum that required each Senior Resource Official (SRO) and Assistant Administrator to perform Management Effectiveness Reviews (MER) of personal services within their respective organizations and report the results in their fiscal 1999 FMFIA Assurance Letters. Through these MERs, the Agency evaluated 189 high risk contracts for personal services. The Agency identified 25 personal services issues; the most prevalent finding involved contractors failing to wear badges and/or identifying themselves as contractor personnel when answering the telephone and in e-mails. In three regions the MERs identified instances of contractor staffers substituting for government employees and vice versa. All of these deficiencies have been corrected, according to the Agency.

Based on these results, the Office of Administration and Resources Management and the Office of Inspector General mutually agree the Agency has made significant progress in correcting personal services relationships under EPA contracts. We have jointly recommended that this area be eliminated as an Agency-level weakness in fiscal 1999.

**Audit Reports**

8400050	EPA Contract Management Initiatives Follow-up, September 29, 1998
8100251	Review of Personal Services, September 29, 1999

## **2. Use of Inefficient Contract Types**

EPA has not made optimal use of contract types that are results-oriented and provide improved cost control. Instead, the Agency continues to rely extensively on level-of-effort (LOE) cost reimbursable contracts that essentially buy labor hours, not results, and place the burden of cost control on the Government. While we recognize that LOE cost-type contracts may be the most appropriate contracting mechanism in certain situations, our audits have identified opportunities for the Agency to issue more performance-based service and fixed price contracts. While EPA has made some progress, the Agency's cultural preference for LOE contracts, lack of understanding of alternative mechanisms, inability to define needs, and broad statements of work that include multitudes of varying tasks have prevented a complete transition. As a result, the Agency's contracts were not always oriented toward obtaining an end product or result and placed most of the risk for performance on the Agency rather than the contractor doing the work. The Agency may also be paying excessive costs for services that could be procured at less cost under firmer contract pricing arrangements. EPA's program offices and contracting offices must share the responsibility for ensuring that only the most efficient contract types are awarded.

The Agency has been evaluating the use of contracts, specifically for environmental services as part of the Agency's Contract 2000 Strategy. The Agency also has discussed moving the emphasis away from the traditional use of cost reimbursement/term-form types of contracts to other types of contracts including performance-based contracts. In addition, a fiscal 1999 Annual Performance Goal subobjective was that 10 percent of fiscal 1999 new contract awards will be performance-based. In order to achieve that goal, every EPA program office was requested to ensure that at least two new contract awards would be performance-based, and the majority of the program offices provided a positive response to the request. Recently, the Agency reported that it awarded 27 performance-based contracts, or 15% of new contracts, which exceeded their goal of 10%. We plan to continue monitoring progress in this area.

### **Audit Report**

7100301      OMB Requested Review of EPA Contracting, September 30, 1997

## **3. Quality Assurance Plans**

Our audit work showed that EPA was not consistently using a scientifically-based, systematic planning process to take actions at Superfund hazardous waste sites. Forty-eight of 61 project plans we reviewed did not have sufficiently developed or documented data quality objectives, the Agency's preferred systematic planning process. As a result, the Agency completed Superfund actions without known quality data for decision making and without sufficiently documenting important decision criteria or alternatives. In some cases, unneeded data was collected, increasing costs. Until a scientifically-based, systematic planning process is

implemented consistently nationwide, we cannot be sure that decision makers have the information needed to make the best decisions about response actions at Superfund sites.

We recommended EPA improve its central management structure for quality assurance of environmental data covering all EPA programs. We also recommended improvements in Superfund at both the national and regional levels, including consistent use of the data quality objectives process at Superfund sites. The Agency agreed with most of these recommendations.

In July 1998, the Agency issued a revised and strengthened order on the mandatory Agency-wide quality system, along with an accompanying Quality Manual. In October 1999, the Agency implemented a reorganization which places the Agency-wide quality assurance manager at a higher level. The Agency is in various stages of preparation and issuance of several requirements and guidance documents in this area. For the first time, the national Superfund program is performing management assessments of each region's environmental data quality assurance activities in the Superfund remedial program.

The Office of Solid Waste and Emergency Response has made some changes in its organizational structure to better address quality assurance needs, but the changes made to date still do not fully implement the report recommendation in this area. The Agency required all regional Superfund programs to report on their strategies for corrective actions in response to OIG audits and management assessments in August 1999. Several of the Superfund program's proposed corrective actions are to be completed during fiscal 2000. The Agency's continued attention to strengthening its quality assurance system is vital.

### **Audit Report**

8100240      EPA Had Not Effectively Implemented Its Superfund Quality Assurance Program, September 30, 1998. Incorporates results from seven other audit reports.